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Ethical Reporting in Islami Bank Bangladesh Limited (1983-2010)

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Abstract

The main aim of this study is to undertake a critical examination of the ethical and developmental performance of an Islamic bank as communicated in its annual reports over a period of 28 years (1983-2010). Islami Bank Bangladesh Limited's (IBBL hereafter) ethical performance and disclosures are further analysed through interviews conducted with the bank's senior management. The key findings include an overall increase in ethical disclosures during the study period. However the focus on various stakeholders' needs has varied over time reflecting the evolving nature of the Islamic finance industry over the last three decades. Based in a secular economy, IBBL focused in the first two decades on the "Particular" Shariah compliance disclosure as a way of establishing its reputation and differentiate itself from conventional banks in a dual banking system. Post 2005, the ethical performance and disclosure shifted to more "Universal" disclosures such as sustainability, charity, employees and community related disclosures signaling responsible conduct and the bank's adoption of a "wider stakeholder approach". However the bank is still failing to provide full disclosure on certain significant categories such as sources and uses of disposable income, thereby contradicting the principles of full and comprehensive disclosure and accountability. In addition, the structure of IBBL's investment portfolio reveals an overreliance on debt based financial instruments and a shortcoming in fulfilling the developmental and social objectives of Islamic finance. This is evidenced by the "qualified" Shariah Supervisory Board (SSB) reports that the bank consistently received. This research provides further evidence that Islamic banking & Finance (IBF) in its current practices reflect the "global" and the "local" influences in an era dominated by global conventional finance.

1. Introduction

Prior to the financial crisis of 2008 conventional finance has always perceived the issues around the role of ethics in finance and the adoption of an alternative financial system as needless (Warde, 2013). This was evident in the excessive lending and use of doubtful collateral to cover the risk of default, rather than appraising the business potential at the time of making financing decisions (Chapra, 2009). Major international conventional banks have been weakened by the financial crisis. Since then, there has been much questioning of the values underpinning the conventional financial system, and the search for ethical alternatives has intensified (Wilson, 2009). Although Islamic finance has not come out of the 2008 financial crisis intact, Islamic banks were less adversely affected and have been much more resilient. They also performed relatively better than their conventional counterparts (Chapra, 2009). Islamic banking and finance (IBF) has grown exponentially over the last 20 years, so much so that it is now a notable feature in global finance of the 21st century (Pollard & Samers, 2007). Over 500 Islamic financial institutions (IFIs) are now in existence, with estimated global Islamic banking assets of US\$ 1.3 trillion in 2011 (E&Y, 2012). Many international financial players (such as HSBC, CITI group, Dow Jones, FTSE and S&P) across the globe entered the IBF sector to tap into new markets and enlarge their client base (Pollard & Samers, 2007).

Islamic finance asserts that financial transactions must be associated directly with the real economy and must be asset based (Warde, 2013). It is governed by the values of profit and loss sharing (PLS) and driven by a moral sense in “*bearing each other’s burden*” to justify the reward of profit (Wilson, 2010). This opposes the so called “*efficient management of risk*” which is based on risk shifting commonly used in conventional finance (Merton, 2010). However the approach of shifting risk to others has proved to be detrimental in the recent financial crisis, reflecting its “*transitory nature*” and the danger of separating financial from real economy transactions (Wilson, 2010). Another factor that helped IFIs to weather the financial crisis storm is the prohibition of speculation and *gharar*, generally interpreted as excessive risk or uncertainty in financial transactions (Warde, 2013). *Gharar* generated by asymmetrical information between parties was observed to be one of the reasons for the financial crisis when better informed investment banks sold “*toxic assets*” to less informed counterparts (Chapra, 2010).

In spite of the fact that Islamic banks performed in a relatively better manner during the crisis, considerable discussion remains on the departure of its practices from its original social and developmental goals, and its current emphasis on “*form-over-substance*” (Warde, 2013). Observers claim that Islamic banking focuses on more affluent clients, rather than playing a social role and assisting the poor. IFIs are also accused of encouraging consumer indebtedness through their highly popular *Murabaha* (cost plus) vehicle (Wilson, 2009). Instead of introducing a unique alternative to conventional finance, Islamic bankers chose a mimicry approach where reverse engineering was practiced to produce Sharia compliant contracts that mimic the Anglo-American conventional contracts in terms of their economic substance. The resultant Shariah compliant debt-based non-PLS products represent “*hybrid outcomes. These are mediated not only by financial elites employed by banks and service firms operating from “global cities” and IFCs, but also mediated by “local” financial actors such as Shari’a scholars, Islamic bankers, trust managers, regulatory bodies and others operating from “local” financial centres*” (Bassens, Engelen, Derudder, & Wiltox, 2013, p.101). In the context of transnational organisations Metcalfe and Rees (2010) also talks about the interplay between global and local forces.

With minor exceptions, it has been claimed in the literature that current IBF practices, motivated by a substantial profit making desire, are mostly about “*big businesses*”. Because of this, it does not seem capable of addressing issues of poverty and inequality, or to answer the needs of the poor and those who are financially excluded across Muslim countries (Chapra, 1985; Wilson, 2009). In addition currently, IBF industry does not integrate concerns of an environmental or social nature. This is a clear flouting of the intrinsic Shariah values of equity, justice and fairness. In this aspect the current IBF practices contradict the “*moral economy*” notion marketed by IBF. Clients adopting IBF for religious or secular ethical reasons would like to see IFIs incorporating social and environmental objectives into their investment policies in addition to their compliance with the *Shariah* prescriptions. *Shariah* supervisory boards were expected to promote sustainable and responsible investment practices, and to take proactive roles in influencing IFIs to actively adopt them (Binmahfouz, 2012).

In line with Islamic principles, profit maximization should not be the only objective of IFIs (Ali, Al-Aali, & Al-Owaihan, 2013). They are expected to have broader objectives covering social value and ethical conduct, which is an essential part of their value proposition (Warde,

2013). According to Warde (2013), the IBF industry initially had “lofty ambitions” of becoming an alternative financial system, but it has made compromises on “high ideals” by “Islamizing” conventional debt based finance instruments (such as Murabaha Finance) rather than sticking to the equity based profit and loss sharing modes of finance such as (Musharaka and Mudaraba). However, it has been argued that these compromises helped IBF to survive the global dominance of conventional finance while failing to rise up to the challenges posed by IBF’s “lofty ambitions” (Hayat, 2013).

Discussion of global development issues such as poverty eradication, social justice and environmental protection are core in major religious traditions and secular ethics. Marshall (2001) argues that according to many beliefs the current condition of “planet earth” and our irresponsibility towards it has become a matter of grave concern. The social, environmental and developmental roles of banks in society have been hot topics in the literature of globalization and development.

IFIs promote a social and ethical identity (Haniffa & Hudaib, 2007) as they claim that the promotion of social welfare and justice are important to these banks as part of their corporate social responsibility (CSR). Therefore, it can be expected that these IFIs will comprehensively address the social and ethical concerns of the society in which they operate. Ethical reporting is one way to communicate the CSR performance of these organisations. However, relatively little attention has been paid to the critical examination of ethical reporting practices of Islamic banks and there is hardly any detailed longitudinal case study on this subject.

In this research we assess how IBBL responded to its stakeholders on ethical, social, environmental and developmental issues, as reported in its annual reports over a period of 28 years. We will also assess how the bank’s “social and developmental” role has been interpreted by the bank’s SSB and operationalized in the bank’s investment portfolio. This paper contributes to the corporate ethical reporting field of Islamic business ethics (IBE) literature in several ways. First, it contributes to a handful of studies which specifically examined the ethical reporting practices of Islamic banks. Second, unlike the previous studies (For example, Aribi & Gao, 2010, 2012; Haniffa & Hudaib, 2007; Hassan & Harahap, 2010; Maali, Casson, & Napier, 2006) which relied solely on a snapshot of secondary data, this study presents an in-depth longitudinal case study of IBBL using a rigorous content analysis of its annual reports over 28 years (1983-2010) and significant primary evidence from a series of interviews carried out with the senior personnel of IBBL. Finally, it introduces an innovative ethical reporting index, developed from a wide variety of sources that differentiates between “Universal” ethical reporting items recommended by international CSR or governance initiatives, and “Particular” ethical reporting items that are specifically required from IFIs due to their moral obligations and Shariah compliance requirements.

The paper proceeds as follows. In the second section we discuss the theoretical framework of the study drawing on the insights from Islamic finance, business ethics and stakeholder perspectives. The third section explains the institutional context of Islamic banking. There follows a discussion of the research approach adopted in this study. The penultimate section of the paper presents the main findings of the paper based on documentary analysis and interview evidence. The final section provides a discussion and conclusion of the paper.

2. Business ethics, Islamic finance and stakeholder perspectives

William & Zinkin (2010) compared the tenets of Islam with the “ten principles” of responsible business outlined in the United Nation Global Compact. Their study concludes that there is no discrepancy between the tenets of Islam and the principles of the UN Global Compact. They noted that Islamic business ethics often go further and have the advantage of clearer codification as well as explicit enforcement mechanisms¹. They concluded that this convergence of values could be valuable in the advancement of a new understanding of CSR in a global context and “*help avert the threatened “clash of civilisations”*”.

IBF² may be compared and contrasted with Western conventional finance in terms of two underlying principles adopted from *Shariah* law. The first is the prohibition of *riba* (interest), which is considered unfair and exploitative³. In Islam, money may not be used as a commodity. Without sharing risk or enterprise between the lender and the borrower, *riba* may be seen as profit which has not been earned. Whoever provides the capital outlay for the venture is permitted to have a financial stake in the business or project, thus earning a reasonable return. He is not, however, allowed to set a rate of interest which has been predetermined. While sharing profits and losses with entrepreneurs, financiers may invest in projects that seem promising, thus promoting economic development (Novethic, 2009). IBF has also to take cognisance of *gharar*, or exorbitant risk or uncertainty. In strong contrast with interest-based conventional finance, IBF emphasises practices that incorporate “asset-based” characteristics. Financial dealings must be linked with the “real” economy and this is the cornerstone of IBF. In addition, any business ventures involving high speculations/uncertainty such as gambling are not permitted (Warde, 2013). Islamic bankers have therefore produced financial products that shun practices involving excessive risk, speculation, or the charging of interest. These rules helped IFIs to avoid the speculative financial products which later led to the current financial crisis.

Beekun and Badawi (2005) outlined the general parameters of an “Islamic model of normative business ethics”, which incorporates the needs of multiple stakeholders alongside a moral filter (Rice, 1999). Their model is centered on criteria that are “*in common with stakeholder theory such as justice and balance and includes unique additional criteria such as trust and benevolence*”. As noted by Beekun and Badawi (2005), Islam adopts a stakeholder perspective that is somewhere between Freeman’s (2001; 1984) approach which considers claims from all stakeholders as equally valid, and Goodpaster (1991) which questions the morality of considering non-fiduciary stakeholder claims. Islam considers all stakeholders’ claims as moral but divides them into three groups, and gives different weights to their claims. The first priority group is the owners/financiers and employees (including management); the following group includes suppliers and customers; all other external parties are included in the final group. Such a normative approach is similar to what more recent

¹ Due to their dual accountability in this world and the hereafter.

² The foundation of IBF is its adherence to the norms and regulations prescribed in the *Qur’an* and the *Sunnah*, as expressed by the prophet Mohammed.

³ Historically, religion has played a great role in finance, and all of the Abrahamic religions of Christianity, Judaism and Islam have received comparable teachings regarding *riba* (usury). These religions as well as some secular viewpoints, like that of Aristotle, have regarded money as sterilized and producing money from money i.e. in the absence of enterprise and asset, as problematic (Warde, 2013).

theorists (Phillips, 2003) have proclaimed (Beekun and Badawi, 2005). However, it is in direct opposition to the “amoral resource dependency theory” of Pfeffer (1982) which asserts that a company has to pay attention to the stakeholder group that provides required resources essential to its continued existence. The ethical business in Islam may not follow its financial aims at the expense of its ethical responsibilities to the community and others impacted by their deeds (Beekun and Badawi, 2005).

Islamic banks, similar to any other firm, are expected to respond to their primary stakeholders (shareholders, depositors and employees) through good financial, governance and sustainable performance. However, it is important to discuss a special type of depositors in Islamic banks: the Investment Accounts holders (IAHs) who are considered to be overlooked in the current governance practices of IFIs. In spite of IAHs’ entitlement to share the bank's net profit (or loss) according to the profit-sharing ratio stipulated in their contracts, they do not have voting rights and cannot influence the bank's investment policy. These IAHs deposited their money in the bank under the Mudaraba contract where the bank is the entrepreneur who invests their money. Because of the lack of protection for IAHs (in the form of deposit insurance), they have more incentives to monitor bank performance than conventional depositors. Hence, information disclosure is expected to be more important in an Islamic banking environment, as a result of this special “agency” problem (Archer & Karim, 2009).

For Islamic banks’ customers and suppliers, socially and environmentally friendly policies have to be adopted. This could be illustrated through the two opposing models of financial intermediation that determine how banks respond to the needs of different stakeholders (especially those who are financially excluded and small entrepreneurs) and how they mobilize their resources. One of the models is comparable to that of conventional commercial banks and the other is similar to an investment bank which seeks profits as well as community development. The two models are labeled here as “commercial banking/minimalist Sharia compliance approach” and “universal banking/wider stakeholder approach”.

In the “commercial banking/minimalist Sharia compliance approach”, Islamic banks act as normal commercial banks and aim to maximize profit as long as they comply with the “letters” of Islamic law. This approach supports debt-creating modes of financing and rejects PLS modes of financing (Farook, 2007). According to this approach, Islamic banks should be concerned mainly with their primary stakeholders (shareholders and depositors), and should not be burdened with extra socio-economic responsibilities towards their customers and society at large (Dusuki, 2007). This model gives priority to profit maximisation and undermines wider social activities that could be provided by Islamic banks in their communities. This is similar to the neo-classical worldview of individual self-interest. IFIs which adopt this approach will focus on disclosing “Particular” ethical reporting items related to “Shariah compliance”, to legitimise their ethical identity as Shariah compliant institutions, without giving much attention to other ethical reporting issues.

The “universal banking/wider stakeholder approach”, supported by Chapra (1985), favours equity based financing that depends on profit-and-loss-sharing (PLS) and places an emphasis on social welfare responsibilities. This approach relies on the implicit interpretations of Shariah which encourages IFIs to go beyond the “minimalist Shariah compliance” approach. In this approach, risks are shared between the financier and the entrepreneur, and equitable

distribution of the benefit of deposits is promoted. Debt-based financial contracts are neither negated nor encouraged, due to the fact they may lead to excessive consumption credits. The PLS modes of finance are more conducive to the socio-economic objectives of Islam, and as the viability of the projects would take precedence over collateral-based lending and credit worthiness, small and medium entrepreneurship and micro-entrepreneurs will be encouraged. Many Islamic scholars argue that “profit and loss sharing” contracts (PLS) are the form of contract considered most fulfilling of *Shariah* objectives. In these, they give banks a long-term stake in the outcome of the enterprise, at the same time allowing entrepreneurs not merely to service their debt, but to run their businesses. The PLS system falls in line with Islamic moral economy. However, Islamic banks are not very enthusiastic in dealing with PLS transactions because of the alleged elements of uncertainty involved. Currently, *Murahaba* (cost-plus or mark-up), is the IBF contract of preference and widely used by IFIs. It is used to enable IFIs’ clients to obtain assets they need and pay “in installments” over time. In return, the bank makes use of a “cost-plus” transaction to earn a profit. Because “*Murabaha*” is debt-based and has a “suspected interest component”, it was initially considered un-Islamic by some scholars. This is unlike the PLS-style transactions that incorporate a mutual risk (Pollard & Samers, 2007)

In this research, we assess the investment practices of an Islamic bank through its uses of funds as reported in its balance sheet over 28 years. Due to the longitudinal nature of the analysis, we are able to observe changes in the bank’s investment portfolio over three distinct stages of IBF industry: pre 1990, 1990-2001, and post 2001, corresponding to what Warde (2013) calls the “three milestones” in the contemporary Islamic Banks history. In addition we document how their Shariah Supervisory board responded to the bank’s investment strategy by analyzing their annual SSB report. In our analysis, we assess how an Islamic bank responded to the needs of the financially excluded customers and entrepreneurs through their investment portfolio. IFIs should respect the rights of both primary stakeholders (shareholders and IAH) and secondary stakeholders (employees, debtors, customers, suppliers, competitors and environment) without exploitation or nepotism (Beekun & Badawi, 2005). IFIs are expected not only to provide Shariah compliant products but also to play a leading role in promoting social welfare by making a positive contribution to the fulfillment of the socio economic objectives of the society at large, such as providing microfinance loans to the poor and financially excluded as well as promoting entrepreneurship to weak segments of society such as the poor and women (Dusuki, 2007). IFIs are also expected to be operating productively and efficiently to bring the best possible return to their shareholders and investment account holders, without sacrificing the interests of wider stakeholders. IFIs adopting this approach are expected to have a sense of accountability to a diverse group of stakeholder groups, to have balanced economic and social goals, and to provide a higher level of ethical reporting that is not only focused on Shariah compliance but also covers the wider (“Universal”) ethical reporting (Dusuki, 2007) such as sustainability and environmental protection as well as developmental achievements. They are also expected to comply with the form and substance of the law of Islamic finance for their exemplary position as responsible financial intermediaries (Farook, 2007).

Accountability in the broad sense is central to Islamic principles and Shariah. Individuals engaged in trade and commerce should behave equitably, and suppliers of goods should not hide any defects in them. Islam requires individuals and organisations to be socially responsible to others in the community (Lewis, 2001). The human being is the Supreme

Being's vicegerent on earth and the resources at his disposal are a trust. Both management and the providers of capital are accountable for their actions, both within and outside their firm. Islamic accounting and disclosure seek to provide information which discharges those involved in firms from their accountability to the society. The purpose of accounting information is to serve the public interest; it follows that in an Islamic context society has the right to know about the effects of the operations of the organisation on its well-being within the requirements of *Shariah*, as to how this has been achieved. Truthful and full disclosure of information is important to satisfy the Islamic accountability of IFIs. Full disclosure is necessary for various stakeholders to assess the bank's financial and social performance as well as predicting future obligations and assessing investment risk needed for making informed economic and business decisions (Lewis, 2001). From the above discussion, IFIs must fulfill two types of ethical reporting requirements: "Universal" and "Particular". IFIs, similarly to conventional banks, should respond to the Universal ethical reporting issues related to various stakeholders, such as the community, environment, employees, customers and governance. In addition, IFIs should also fulfill further "Particular" reporting practices mainly related to Sharia compliance issues. In this study, we present the IBBL's ethical accountability through an assessment of its disclosure of the banks' financial, environmental and social performance.

3. The Institutional Context of Islamic Banking and Bangladesh

Islamic banking has a long history dating back to the 1960s. The first Islamic bank "Mit Ghamr Local Savings Bank in Egypt" was established in 1963. This bank has been promoted as a social welfare institution. A similar initiative was developed in Malaysia around the same time. In the early 1970s, the rise in the price of oil resulted in the development of many oil-rich countries in the Gulf and Middle East. These created additional motives to build investment channels and innovative financial products that meet the needs of Muslims for Shariah compliant investments. In 1974, the first gulf Islamic bank was established, Dubai Islamic bank. In 1975, the Islamic Development Bank (IDB) was established to promote economic growth in Muslim countries and develop Islamic finance.

A number of countries have established international bodies to adapt conventional standards and promote harmonization of practices for IFIs. These include, inter alia, the Islamic Financial Services Board (IFSB), the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI) and the International Islamic Rating Agency (IIRA). From a financial and political viewpoint, Warde (2013) split the past of contemporary Islamic finance into three phases: the era from 1975 to 1991, distinguished by rekindled interest in Islamic economics and finance thought; the era 1991 to 2001, marked by experiments and setbacks in turning theory of Islamic finance into practice; and after 2001, signified by a boom, increased fluency in Islamic finance spanning entire countries, and more global financial institutions providing Islamic financial services.

There are three models in IBF. The first is a complete IBF system (such as Pakistan, Sudan and Iran). The second is a dual banking system based on bank-level *fatwa* and a "bottom-up" approach for the appointment of SSBs. The third model is a dual banking system driven by national developmental goals and a "top down" *fatwa* approach (such as in Malaysia). The "bottom up" approach is followed by the majority of IFIs including IBBL. In this model, the SSB is appointed and remunerated by the institution's board of directors, casting doubt on

their independence. This can result in differences in *fatwa* at national and international levels. Moreover, in this model, the Sharia scholar sits in multiple SSBs, which could result in conflicts of interest. The outright legitimacy of these Sharia boards and internal Sharia audit units can be questioned. Scholars supported move towards centralized Sharia boards, and argues for the importance of international standards for Sharia compliance (Chapra & Ahmed, 2002; Wilson, 2010). The nationwide “top down” approach has been followed in Malaysia for decades, and had been recently introduced in Dubai, Oman, Pakistan and Nigeria, where Sharia boards are centralized nationally. However, this approach also poses questions about political influence on the SSBs from governments. Recently, the Islamic Development Bank (IDB) in Jeddah called for the creation of a global Shariah supervisory board, which would offer greater uniformity for the industry.

IBBL, established in the first era of Islamic banking, is the first Sharia based bank in South East Asia. Since its establishment in 1983, IBBL has developed itself as one of the largest private banks in Bangladesh. It is listed on both Dhaka and Chittagong Stock Exchanges. The bank has 41.97 % local shareholding and the remaining shares are held by foreign shareholders. A brief profile of IBBL is shown in Table 1.

Insert Table 1 Here

IBBL claims that along with conducting interest-free banking, its ultimate objective is to contribute to achieving an Islamic economic system in Bangladesh. It also claims to be a “welfare oriented” bank, for which it has been rewarded several times by Bangladesh bank (central bank) and credit rating agencies at home and abroad. The London based magazine, Global Finance, nominated IBBL as best bank of Bangladesh in the years 1999 and 2000. Although the bank has a website it is mainly geared towards providing information for its customers and annual financial statements for its investors. Social and ethical issues are addressed via its formal annual reports. The company does not publish standalone social/ethical reports. The social and ethical activities of IBBL are mainly organised via its sister concern Islami Bank Foundation (IBF).

Since the establishment of IBBL Islamic banking has gained popularity in Bangladesh. Currently there are 48 banks in Bangladesh and 6 of them are Islamic banks. In addition, some of the remaining mainstream banks have Islamic banking windows. 19% of total bank deposit is controlled by the Islamic banking sector in Bangladesh which has experienced an average growth of 29.3% over the last decade (Akkas, 2012). 90% of the population in Bangladesh is Muslim. We argue that the significant growth of Islamic banking is largely a factor of demand from this population for interest free banking in Bangladesh. However, the state is mainly run via a secular system following the principles of a market economy. The banking system is predominantly based on interest. The banks in Bangladesh are regulated by Bangladesh Bank. In June 2008 Bangladesh Bank issued a directive titled "Mainstreaming Corporate Social Responsibility (CSR) in banks and financial institutions in Bangladesh" asking all banks in the country to report on their social, ethical and environmental performance. All banks are expected to follow this directive issued by the Bangladesh Bank with relevant disclosures within their annual reports. This is a remarkable initiative by the

Bangladesh Bank which is expected to have significant impact on the ethical disclosures by the banks (including Islamic banks) in Bangladesh.

Although Bangladesh is one of the largest Muslim majority countries (MMC) in the world it is not an Islamic state. The political system is based on parliamentary democracy. The two major political parties (Awami League and Bangladesh Nationalist Party) which have been running the country for years are not Islamic parties. Running an Islamic bank in a non-Islamic state is not without challenge. IBBL appoints and remunerates its own SSB. While the Islamic banks will need to meet the expectations of the Muslim communities by running fully Shariah compliant operations some of the regulatory requirements might be in conflict with the Shariah requirements, for example, the requirement to deposit money with the central bank's interest bearing account.

The regulatory context of Islamic banking is worth considering here. In the past there was no separate guideline for Islamic banking in Bangladesh. Islamic banks, like other mainstream banks, were regulated by Bangladesh Bank under the Banking Companies Act, 1991 and Companies Act, 1994. Given the recent rise of Islamic banking in Bangladesh, Islamic banking guidelines were introduced by Bangladesh Bank on 9th November, 2009 (BRPD Circular No. 15). These are aimed to “bring greater transparency and accountability and therefore governance to the Islamic Banking”. It is expected that these newly enforced guidelines will have a positive influence on the ethical disclosure practices of Islamic banks in Bangladesh. It is worth bearing the above context in mind while discussing the ethical disclosure practices of Islamic banks in Bangladesh. Maali et al (2006) argued that, for legitimacy reasons, banks operating in non-Islamized economic environments are likely to disclose more than the banks operating in the fully Islamized economic environment.

4. Research Design

Our principal objective in this paper is to undertake an “in-depth” examination of *how and why* ethical disclosure practices developed over time in IBBL. IBBL has been chosen for this study for several reasons. First, this is the first, largest and longest serving Islamic bank in Bangladesh with strong public visibility across the country. Second, we have managed to obtain all annual reports of IBBL necessary for this study. Also, IBBL has provided us necessary access to its senior officials for the purpose of conducting interviews without which this study would not have been possible. Thirdly, IBBL has received several awards for its disclosures in the annual reports establishing its position as a best practice bank. Finally, founders of Islamic banks in other MMC countries have drawn upon the expertise of IBBL. We hope the findings of this study will help Islamic bankers and policy makers in other MMC to reflect upon their current practices and bring necessary improvements therein.

Following Yin (2009) we have adopted a case study design to pursue the research objective of this study. Such an approach helps to focus on a particular phenomenon (ethical reporting in this case) (Ryan, Scapens, & Theobald, 2002). We align our study with the non-positivist paradigm to ‘seek contextual understanding’ of the phenomenon in question. We believe this approach has ‘much to offer’ in business ethics research which is otherwise dominated by positivistic research and have resulted in call for this type of research following qualitative traditions (Brand, 2009; Robertson, 1993).

Unlike previous studies on ethical reporting in Islamic banks (See for example, Haniffa & Hudaib, 2007; Maali et al., 2006) which adopted a cross sectional approach we have applied a single case study approach to enable us to develop a critical scrutiny of ethical reporting practices in IBBL. Our rationale for adopting a longitudinal approach is the desire to evaluate IBBL's ethical reporting practices over its entire organisational life. We believe this enabled us to better understand the trends and development of IBBL's ethical disclosures practices. A single case study approach does raise the issue of generalizability. However, our purpose in this study is not to produce statistically generalizable knowledge rather we have attempted to offer analytical/theoretical generalizations which will offer significant policy implications for relevant decision makers. To increase the external validity of our study we have offered 'clear rationale for the case study selection' and 'ample details on the case study context' (Gibbert, Ruigrok, & Wicki, 2008, p.1468) in the previous section.

The case is framed by using a combination of documentary analysis and primary in depth interviews. Data triangulation and explanation of data analysis procedures (provided later in this section) should help increase the construct validity of this study.

5.1 Documentary analysis

As part of the documentary analysis we have undertaken a content analysis of all annual reports of IBBL for the period 1983-2010. We have considered published annual reports as this has been the most consistent and regular medium for the company to communicate with its stakeholders. To point out the importance of annual reports Gray, Kouhy & Lavers (1995) suggested that they are published consistently and help to construct an external image of organisations. Most of the earlier studies on ethical reporting in Islamic banks have focused on annual reports. Therefore this study considered only the annual reports to examine the level of ethical reporting of IBBL.

The justification for the time period chosen is that 1983 is the first annual reporting year of IBBL while 2010 was the last annual report available at the time of writing this paper. The chosen time period (28 years) provides a long enough time to examine the trends in ethical disclosures within the annual reports of IBBL.

Content analysis has been defined as a research technique for making replicable and valid inferences from texts (or other meaningful matters) to the context of their use (Krippendorff, 2012). It is an approach which systematically enumerates the contents of documents and texts under specific categories and requirements. Along with providing certain amount of longer-term analysis this approach also makes follow-up studies more viable. The flexibility of this approach allows it to be used on an extensive range of diverse unstructured information. So it is not unexpected that this approach has been used in large numbers in determining the nature and extent of ethical reporting (See for example, Haniffa & Hudaib, 2007; Maali et al., 2006).

In order to analyse the annual reports various approaches can be applied to examine the focus, existence and level of ethical reporting. In this study we have used a disclosure index which consists of a comprehensive list of 149 disclosure items across 16 categories. The

index is shown in Appendix A of this paper. As shown in Appendix A we have classified total disclosures items into “Universal” (89 items) that are shared with internationally recognized initiatives such as Organization for Economic Cooperation and Development (OECD) and Global Reporting Initiative (GRI) guidelines on financial services and “Particular” (60 items) that are required for Shariah-compliance. The content analysis instrument used in this case further extends the instruments used in previous research (See for example, Haniffa & Hudaib, 2007; Maali et al., 2006). In order to improve the internal validity the checklist is derived from the relevant literature and accordingly the sources of each item has been identified in the final column of Appendix A.

For each item disclosed in a year we used a score of 1 or 0 (if not disclosed). We have used an un-weighted indexing procedure to avoid possible bias in scoring. This is consistent with previous studies (see for example, Ahmed & Nicholls, 1994; Cooke, 1989). For each year an index was calculated by dividing the number of items disclosed with total number of items to be disclosed.

5.2 Interview analysis

In order to supplement the documentary analysis, a series of interviews were conducted with the senior officials of the bank. Justifications and other details of the interviews are provided in Table 2 below:

Insert Table 2 Here

All interviews were conducted and recorded in a face to face setting with the exception of one interview which was conducted with the Shariah Council member over the phone and detailed notes were taken during and after this interview. All other recorded interviews were subsequently transcribed. The average length of each interview was approximately 1 hour. Interviews were followed up by emails and telephone calls where necessary. To allow the interviewees to speak freely most of the interviews were conducted in an open ended fashion. Interview topics included discussion about main drivers of the development of ethical reporting practices in IBBL, identification of stakeholders, objectives of IBBL, challenges of Islamic banking and IBBL’s performance on social and ethical aspects. The transcribed interview data were analyzed following the three steps suggested by Miles, Huberman, and Saldana (2013) - data reduction, data display and conclusion gathering. The interview transcripts were critically analyzed with reference to the two theoretical approaches discussed in section 2 of this paper in mind. We now present the key findings in the following section.

5. Ethical Reporting in IBBL (1983-2010)

5.1 Overall Patterns and Trends of Ethical Disclosures

Overall patterns and trends of ethical disclosures in IBBL are presented in Figure 1 below:

Insert Figure 1 Here

Figure 1 exhibits an overall increasing trend over the study period. It shows that extent of ethical disclosures (measured by score) increased from 1% in 1983 to 75% in 2010. The mean disclosure score was 42% over the 28 year period. The scores were further analyzed into “Particular” and “Universal” disclosures. Table 3 shows that “Particular” disclosures increased from 6% in 1983 to 70% in 2010 whereas “Universal” disclosures increased from 12% in 1983 to 79% in 2010 with an average of 47% and 38% respectively.

Insert Table 3 Here

To examine the patterns of “Particular” and “Universal” disclosures we have also analyzed them over different time periods. The results are shown in Table 4 together with the ranking of most popular categories. We observed that throughout the study period IBBL mainly focused on “Particular” disclosures. In all of the three time periods (1983-1990, 1991-2000 and 2001-2010) average “Particular” disclosures scores were either more than “Universal” disclosures scores or nearly same. However, on further analysis of the last time period we found that while the trend continued for the first half of this time period (2001-2005) in the second half of this time period (2006-2010) average “Particular” disclosures scores were less than “Universal” disclosures scores indicating a shift in disclosure strategies. This shift is also observable in the ranking of most frequently disclosed categories.

Insert Table 4 Here

Table 4 demonstrates that in the first two periods (1983-1990 and 1991-2000) the top three disclosure categories included Islamic commitment and Shariah Awareness. IBBL concentrated on establishing the credibility of Islamic banking in Bangladesh from the inception. This is evident from the establishment of Shariah Council in its first year of operations:

To ensure compliance of Shariah principles a Shariah Council consisting of 6 Fukhas [Islamic experts], one lawyer, one banker and two economists were appointed in May, 1983. (Annual Report, 1984, P.13)

IBBL started operations in a traditional interest-based financial environment and felt the need to educate the public about the importance of Islamic banking from the very beginning. With this objective in mind it ran various publicity campaigns from the inception of the bank:

During the year under report the management concentrated its efforts on popularizing the Islamic banking concept. (Annual Report, 1985, P.8)

However, over the years there are noticeable changes in the disclosure patterns. This is observed from the focus of IBBL on “Universal” disclosures such as community involvement, charity and sponsorship activities in the third reporting period (2001-2010) in general and in recent years in particular (2006-2010).

One of the reasons for this could be that during the first two reporting periods IBBL managed to establish their strong footing in Bangladesh by running an awareness campaign and by

providing credibility (via Shariah Council's assurance) of its operations in accordance with Islamic principles. The success of IBBL in this area is evidenced by its increasing popularity as indicated by the fact that it is one of the largest private sector banks in Bangladesh.

Although IBBL disclosed on charity and community involvement in the first two periods, by the third reporting period sponsorship and community involvement had become the most popular item. This was not the case in the first two periods. One of the most important influences behind this shift in disclosure patterns is the directive issued by the Bangladesh Bank on the reporting of ethical activities by the banks in Bangladesh:

Bangladesh Bank issued a circular (DOS 01, dated 1 June 2008) regarding guidelines for mainstreaming Corporate Ethical Responsibility (CSR) in banks and financial institutions. Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI) also formulated the same as their governance standard No. 7 which IBBL is obliged to follow as member of their charter. As per guidelines of the Central Bank, CSR practices of the Bank are categorized as follows:

1. CSR practices within the organization.
2. Scrutinizing environmental and ethical impact of the projects financed/to be financed by the bank.
3. Reaching out with financial services to the less fortunate segments of the **community**.
4. **Community investment** by way of donation. (Annual Report, 2009, P.84, emphasis added)

In addition to the influence of Bangladesh Bank, IBBL also talks about the influence of other international benchmarks such as ISO 26000 and Equator Principles:

....**ISO 26000** has identified 7 core issues to be considered as ethical responsibilities. These are organizational governance, human rights, labor practices, environment, contribution to the **community** and society, consumer issues and fair operational practices...

Being inspired with the above core issues..... the Bank [IBBL] [will] gradually adopt the best practices in corporate sustainability reporting keeping the **Equator Principles** and other related issues in view. (Annual Report, 2008, P.64, emphasis added)

Is IBBL disclosing everything that they should have disclosed? An average disclosure score below 50% indicates that there are some areas where necessary disclosures have not been made. These shortfalls relate to both "Particular" and "Universal" disclosures. IBBL kept silence on items that could question its "Islamic image" or Shariah governance such as: SSB members' cross directorship, the nature and number of customer complaints, the nature and amount of unlawful or doubtful income, its policy for charging late penalties to loan defaulters, Quard Hassan (interest free loans) and dealing with insolvent clients. Moreover, non-disclosure of statement of sources and the uses of Zakat and statement of sources and disposal of impermissible income, cast doubt on the sources of funds used in the increased community and charity activities in the later reporting periods.

One of the main responsibilities of the Shariah Council is to issue an assurance statement which has been published in each year's annual report alongside the financial auditors' report (except 1983). The main purpose of such a statement is to add credibility to IBBL's activities with regard to Shariah compliance. According to AAOIFI's Governance Standard No. 1 such a council/board is supposed to be appointed by the shareholders in the annual general meeting and their assurance statement is supposed to be addressed to the shareholders.

However, this was not the case in IBBL. This raises questions about the ability of the council to express independent opinions on the activities of IBBL. However, in an interview one of the Shariah Council members defended their independence vigorously.

The extent to which the council can successfully influence the activities of IBBL with regard to full Shariah compliance is yet to be seen. Our concern is related to IBBL's overreliance on non-PLS (profit/loss sharing) modes of finance and the reservations expressed by the council without having much bearing on the behavior of IBBL in this regard.

Insert Figure 2 Here

Figure 2 reveals that IBBL's percentage of PLS modes of investment decreased from 15% in 1985 to less than 1% in the latest year. It is significant that this was happening in spite of the Shariah council's repeated reminders from 1988 to increase the PLS modes of investment. In 2007 the Shariah council again recommended that:

It is essential to **increase** more scope of **Mudaraba-Musharaka mode** vis-à-vis the buying and selling mode of Bai Murabaha, Bai Muajjal and Bai Salam. (Annual Report, 2007, P.100, emphasis added)

While the council did not comment on this aspect in their later reports IBBL continued to ignore this recommendation. This raises questions about the Shariah council's ability to act independently and to hold the management of IBBL to account in order to uphold the true spirit of Shariah.

5.2 Drivers of Ethical Disclosures

We now supplement the above evidence from the annual report analysis with the evidence from interview data analysis which has, mainly, concentrated on the drivers of ethical performance and its reporting in IBBL. In section two of this paper we noted that IFIs are expected to address the issues of social justice and welfare. We have analyzed the interview materials in the light of the two theoretical approaches: "minimalist Shariah compliance approach" and "wider stakeholder approach" representing the "particular" and "Universal" respectively. While talking about the aims and objectives of IBBL the Chairman implicitly refers to the second approach:

As an Islamic bank, IBBL emphasizes more on ethical involvements compared with traditional banks as the objective of IBBL or Islamic banks is not only making profit but also to establish social justice and to serve the community. (Chair)

A similar view was also echoed by the CFO of IBBL:

Since the start of the bank in 1983, the purpose of setting up the bank was not only making profit but also to contribute to the society. We wanted to encourage society with our ethical activities and inform the public through annual reports. (CFO)

However, then some of the interviewees quickly came back to the “minimalist Shariah compliance approach”. Articulating the motivation of ethical disclosures the Chairman of IBBL said,

I believe disclosure of such information would help us to convince people about Shariah banking.
(Chair)

Further expanding on the rationale behind the development of ethical reporting one of the interviewees commented,

We would like to inform people about the specialty we have. As Islamic banking is a new concept, it is important that we disclose information regarding these as we would like to see the whole banking system in the country under the Islamic banking system. We also disclose information because other companies in the country are doing the same.We would like to inform everyone that we want to operate according to Shariah.... The shareholders and directors have an uncompromising attitude towards it. (CFO)

IBBL’s inclination towards the “minimalist Shariah compliance approach” and the desire to legitimize itself as a Shariah-compliant institution is indicated in the following quote:

We have a Zakah fund from which we carry out charitable activities. All doubtful incomes are used for charitable purposes. I believe disclosure of such information would help us convince people for Shariah based banking.Although there is no legal requirement in Bangladesh, we provide independent reports from our Shariah Council. We have highly educated Islamic scholars in our Shariah Council and their report gives further confidence to our shareholders and the community.
(Chair)

Regarding the contemporary drivers for enhanced disclosure in IBBL interviewees talked about the influence of Bangladesh Bank, AAOIFI and GRI representing an influence of both the “Local” and the “Global” regulations on their CSR practices. The following quotations from the interviews support the above contention:

Bangladesh bank published a circular in June, 2008 for mainstreaming CSR activities and asking for ethical disclosures. We have started to follow their guidelines. As a member of AAOIFI, we are expected to provide information on CSR as per their Governance Standard 7 on CSR and disclosure. I am very optimistic about preparing a comprehensive CSR report as per **GRI Guidelines, AAOIFI and Bangladesh Bank Guidelines** as our board of directors is very much interested about it and provides sufficient support to us. We are highly motivated about it as it is very much relevant to our Islamic approach. (HCSAD, emphasis added)

We will disclose on CSR in our 2009 annual report in accordance with **Bangladesh Bank Guidelines**. We will report on CSR in a more organized way as it helps readers, researchers to know about our bank and there are various awards available for that too. In future we will also follow the **GRI Guidelines**.... (CFO, emphasis added)

We argue that the above mentioned international and local CSR guidelines were particularly influential in relation to the shift to “Universal” disclosures in the second half (2006-2010) of the third reporting period (2001-2010). This has been documented in Table 4. We illustrated earlier that the entire CSR section of the 2009 Annual Report was presented in accordance

with the Bangladesh Bank Guideline. IBBL has created a separate Corporate Social Affairs Department (CSAD) in 2009 with staff strength of five peoples within its Operations Wings. One of the interviewees described the scope of CSAD's work as follows:

The main terms of reference is [to help IBBL] to comply with the circular of Bangladesh Bank published in June 01, 2008. Bangladesh Bank has asked to integrate CSR within the banks' mainstream activities. Before this circular, CSR was a philanthropic activity by the banks. Bangladesh Bank Guidelines were instrumental to institutionalize these CSR practices within IBBL. (HCSAD)

The interviewees also addressed the issue of non-disclosure on some of the sensitive issues suggesting their continued focus on their "Shariah Compliance Legitimacy". For example, one interviewee attempted to defend IBBL's position on income from unlawful transactions as follows:

.....approximately 10% of our transactions are still unlawful; however, it is decreasing every year. We mainly struggle in smaller transactions. We need to be careful about disclosing such issues as the people opposing Shariah banking might use it against us for propaganda and damage the public image of IBBL. (Chair)

The above quote demonstrates IBBL's exposure to political sensitivity and concern for its public image in relation to the disclosure on sensitive issues like income from unlawful transactions. The CFO of IBBL commented on this delicate issue as follows:

We conduct our activities according to Shariah. However, due to mistakes some of them may not comply with Shariah. These erroneous incomes are not part of our regular income. These incomes are called doubtful incomes which are normally disposed of by paying to the charity. (CFO)

In line with their social welfare objectives Islamic banks provide Quard Hassan (interest free loans) for ethically beneficial purposes. In its 2009 annual report IBBL disclosed that some Quard Hassan was provided to the poor beneficiaries of their Rural Development Scheme. We were told that this was normally done through their sister organization Islami Bank Foundation to meet their social welfare objectives. In addition to that the CFO of IBBL informed us that it provides Quard Hassan to its employees from provident fund and benevolent funds. There is no information in the annual report on the sources and uses of Quard Hassan. Upon enquiry one interviewee clarified the sources of Quard Hassan as follows:

We create this fund from shareholders' and customers' donation. We do not create this fund officially as for that purpose we will need approval from the Bangladesh Bank. (HCSAD)

The IBBL also did not disclose any information with regard to the loan defaulters (including Quard Hassan) and late penalties charged on them. On enquiry one interviewee said,

We have a written down policy in this regard in our Investment Manual. In case of default it will be referred to a Review Committee for examination of each individual case. In this regard we are slightly different from other banks. Other banks charge interest in case of classified loans. But we only charge compensation after examining the situation. In case of unintentional business loss, natural calamities and other situations beyond the control of clients we normally do not charge any compensation. In some cases we even waived the loan which is relatively higher in case of micro-credit. We also consider humanitarian causes in case of loan defaults which conventional banks would not do. (CFO)

6. Discussion & Conclusion

In this section we interpret the findings with reference to the theoretical framework, prior research and the contextual materials presented earlier in the paper. Our results in the previous section show that there is an overall increase in the ethical disclosures of IBBL during the study period (See Figure 1). Such an increase is maintained in both “Particular” and “Universal” disclosures (See Table 3). In section 3 (context) we noted that Islamic banks operating in non-Islamized countries (like Bangladesh) are more likely to disclose ethical information with a view to legitimise their existence in a potentially unfavorable political and regulatory environment.

It appears that IBBL has mainly focused on “Particular” disclosures throughout the study period as revealed by the periodisation analysis (See Table 4). However, we observed that in the later part (2006-2010) of the third reporting period (2001-2010) there is a shift towards more “Universal” disclosures. For the first time in the study period average “Universal” disclosures during 2006-2010 were more than the average “Particular” disclosures. This shift in disclosure patterns from the “local” to the “global” is also confirmed by the ranking analysis of the popular disclosure categories (See Table 4) which shows that all top 3 disclosure categories are related to “Universal” disclosures.

We noted earlier that one of the key drivers for the increased “Universal” disclosures during 2006-2010 could be linked to the Bangladesh Bank’s directive on CSR. During this period community disclosures became the most popular category within the “Universal” disclosures (See Table 4). The length of the period covered in this study allowed us to observe this shift in ethical disclosure strategy of IBBL which was not possible in earlier studies due to their snapshot coverage and cross sectional nature of the data. Other driving forces behind this change could be related to IBBL’s explicit desire to be in line with requirements of international initiatives such as GRI guidelines, ISO 26000 and Equator Principles. We note the interplay of “local” and “global” forces here (Bassens et al, 2013; Metcalfe and Rees, 2010). It might also be related to the increased public visibility (Campbell, Moore, & Shrivess, 2006) of IBBL in recent times. The visibility of IBBL is evidenced by its enormous growth as indicated by the increase in its number of branches, employees, assets and profitability (see Table 1). This visibility might trigger IBBL’s desire to legitimize its activities and enhance its ethical image via improved community related disclosures. Higher community disclosures in banks were also found by Branco & Rodrigues (2008) in their study of Portuguese banks and by Clarke & Gibson-Sweet (1999) in the UK top 100 companies. Does this shift from “Particular” to “Universal” disclosures indicate adoption of a “wider stakeholder approach” beyond the “minimalist Shariah compliance approach”?

In light of the theoretical arguments articulated in section 2 we note that IBBL’s consistent focus on “Particular” disclosures until 2005 is indicative of a “minimalist Shariah compliance approach”. However, the point of departure was apparent from 2006 onward when average “Universal” disclosures exceeded average “Particular” disclosures in each year. This possibly leads towards the conclusion that IBBL is signaling responsible conduct and a “wider stakeholder approach” encouraged by the scholars of Islamic finance. This is also revealed by some of the interview quotes presented in section 5. Is this just a change in disclosure pattern

only? Has it been translated into a behavioral change in IBBL's investment and financing practices which would be expected from an IFI adopting such approach?

Our analysis of IBBL's investment portfolio, however, reveals a dismal picture (See Figure 2). Although the Islamic scholars (Ahmad & Hassan, 2007; Chapra, 1985; Mouawad, 2009) encourage equity-based PLS modes of finance IBBL's portfolio contained a significantly declining percentage of such finance in the total investment portfolio with less than 1% in the latest year of this study period. The Shariah Council of IBBL expressed reservations about this practice without any hope of changing IBBL's behavior in this regard. Instead, it continued to rely heavily on debt-based non-PLS modes of finance which might have brought them commercial success in terms of profitability but it indicates IBBL's lack of responsiveness towards the social objective of poverty alleviation and redistribution of wealth. It indicates the limited ability of the Shariah Council to influence the activities of IBBL. It also raises questions about the effectiveness of the Shariah Council under the current governance regime of IBBL and the IBF sector in general. We are not the first to raise this concern. Similar concern has also been raised by others (See for example, Alkhamees, 2013).

This leads us to conclude that IBBL's change in disclosure strategy has not been borne out by its current investment and financing practices. This indicates an attitude of sticking to the minimalist approach without violating rules of the Shariah explicitly. This conclusion is also supported by the interview materials presented in section 5 of this paper. Some of our interviewees did talk about social justice issues and the role of IBBL in this regard. However, they were not clear about which of the two approaches – minimalist or wider stakeholder – they were referring to. On further elaboration it became clear that they were referring to the minimalist approach. Their legitimacy motive following a minimalist approach became apparent when they indicated that their charitable activities are funded via the Zakat fund which had to be used for that purpose any way to meet the requirements of Shariah. Moreover, their use of reputable Shariah scholars in their Shariah board appears to be driven, at least partly, by reputational motive.

Finally, we observe that IBBL's reluctance to adequately disclose in certain sensitive categories (noted in section 5) runs against its self- professed claims to operate in accordance with the core Islamic principles of 'accountability, transparency and integrity'. These are the issues which sample Islamic banks in Maali et al (2006) have also neglected to disclose. This failure has led to something that Haniffa & Hudaib (2007, p.111) call 'incongruence between the *communicated* and *ideal* ethical identities' of Islamic banks. This was also referred to as 'a gap between the ideals and actual practice of Islamic banks in Bangladesh' by Ahmad & Hassan (2007, p.271). Maali et al (2006, p.286) argues that Islamic banks 'are accountable to God and to the communities in which they operate and have a duty of truthful disclosure'. In the above noted aspects IBBL appears to have fallen short of this core accountability requirement. Non-disclosure of these controversial items suggests the bank's avoidance of disclosing items that could negatively influence its "Islamic image" and its legitimacy as a Shariah-compliant institution. Some authors (Belal & Cooper, 2011; Tilling & Tilt, 2010) argued that organizations might withhold information or provide less disclosure in their bid

to maintain legitimacy or out of fear from political backlash as indicated by one of the interviewees.

Our study contributes to the corporate ethical reporting field of IBE literature by extending the works of the previous studies in this field. It does so by providing a longitudinal case study of a large Islamic bank in Bangladesh over a 28 year period whereas the scope of the previous studies included relatively short period of time and utilized limited insights from secondary data only. In addition, our study enhanced documentary analysis with significant insights from primary interview data and thus responded to the call for such improvements by Haniffa & Hudaib (2007). We can draw a number of broader implications from the results and conclusion of this case study.

First, this research examined the ethical disclosures of an Islamic bank mainly from the corporate perspective. Given the changes revealed in IBBL's disclosure behaviour future researchers might explore how these changes are viewed by the recipients of Islamic financial services and other relevant stakeholders (Belal & Roberts, 2010). This study has been conducted on an Islamic bank operating in a non-Islamised economic environment of a MMC. Future research might develop comparative case studies from different socio-political contexts of the world including Islamised contexts (for example, Pakistan) and non-MMC contexts (for example, Islamic Bank of Britain in the UK). After the Arab Spring and the emergence of some religiously motivated governments, the IBF industry is expected to boom in these countries. However, it is yet to be seen whether new models of IBF will be adopted by IFIs in Egypt, Libya and Tunisia or will it be a continuation to the current trend.

Second, we have raised concerns about the current functioning of SSB in IBBL and their limited ability to influence operational behavior of the bank. This observation might be extended to other Islamic banks and have sector wide implications for the policy makers. In order to improve the effectiveness and independence of the SSB we argue that they should not be appointed by the management of the organization. If they are appointed by the management and are required to report back to management their effectiveness and independence would continue to be compromised. We recommend reforms in the corporate governance structure of Islamic banks (Chapra & Ahmed, 2002) to empower the SSB members. This recommendation is in line with Alkhamees (2013).

Finally, our study has managerial implications. IBBL's incomplete ethical disclosures and over-reliance on non-PLS modes of finance are inconsistent with the ideals of social justice, fairness, transparency and accountability it attempts to promote. This finding may be extended to other Islamic banks. We recommend that, in order to retain its popularity and credibility, management of Islamic banks should decrease reliance on non-PLS modes of finance and attempt to increase the transparency and completeness of its ethical disclosures. There is therefore room for mutual integration and cross knowledge transfer between the Islamic and socially responsible finances. By adopting a wider stakeholder approach Islamic banks can learn from sustainable and responsible investment strategies of conventional banks. Similarly, conventional banks can learn from IBF sector about the ethics of risk sharing rather than shifting all of the risk to others and linking financial transactions with real assets and avoiding *gharar*.

Insert Appendix A Here

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Table 1: Profile of IBBL				
Description	1983	1990	2000	2010
Number of Branches	4	49	116	251
Number of Employees	127	845	2,685	10,349
Total Assets (Million Taka)	2,258	6,677	39,366	330,586
Profits before tax (Million Taka) (1 US\$=70 Taka app.)	-2.6	140	330	8,489

Table 2: Details of Interviewees			
Designation of Interviewees (Codes)	Number of Interviews	Rationale of choosing the interviewees	Year of Interviews
Chairman (Chair)	1	To get views from the very top of the bank.	2004
Chief Financial Officer (CFO)	3	This is the key person in IBBL who compiles the annual report and has been serving IBBL for the last 20 years or so.	2002, 2006 & 2010
Head, Corporate Social Affairs Department (HCSAD)	1	This newly created department now coordinates the corporate ethical activities of IBBL and provides materials for the CSR section of the annual report.	2010
Shariah Council Member (SCM)	1	To get the views of the Shariah Council on the social and ethical performance of IBBL.	2004
Total	6		

Table 3: Particular and Universal Disclosure Scores		
Years	Particular	Universal
1983	0.06	0.12
1984	0.32	0.17
1985	0.27	0.20
1986	0.28	0.19
1987	0.35	0.18
1988	0.35	0.21
1989	0.35	0.27
1990	0.35	0.28
1991	0.33	0.18
1992	0.43	0.25
1993	0.47	0.28
1994	0.45	0.28
1995	0.45	0.29
1996	0.47	0.30
1997	0.45	0.31
1998	0.45	0.31
1999	0.50	0.31
2000	0.53	0.33
2001	0.60	0.37
2002	0.62	0.39
2003	0.65	0.57
2004	0.62	0.60
2005	0.63	0.60
2006	0.63	0.67
2007	0.65	0.69
2008	0.67	0.71
2009	0.63	0.76
2010	0.70	0.79
Minimum	0.06	0.12
Maximum	0.70	0.79
Average	0.47	0.38

Table 4: Periodic Analysis (1983-2010)					
Ranks	1983-1990	1991-2000	2001-2010	2001-2005	2006-2010
1	Shariah Awareness (6)	Community Involvement (10)	Sponsorships (12)	Sponsorships (12)	Sponsorships (12)
2	Charity (11)	Islamic Commitment (3)	Community Involvement (10)	Community Involvement (10))	Charity (11)
3	Community Involvement (10)	Charity (11)	Charity (11) & Islamic Commitment (3)	Employees (15)	Community Involvement (10)
Average Particular Scores	0.29	0.45	0.64	0.62	0.66
Average Universal Scores	0.20	0.29	0.62	0.51	0.72

Note: Figures in parenthesis indicate codes of categories. See Appendix A for the codes.

Figure 1: Total Ethical Disclosure Scores (1983-2010)

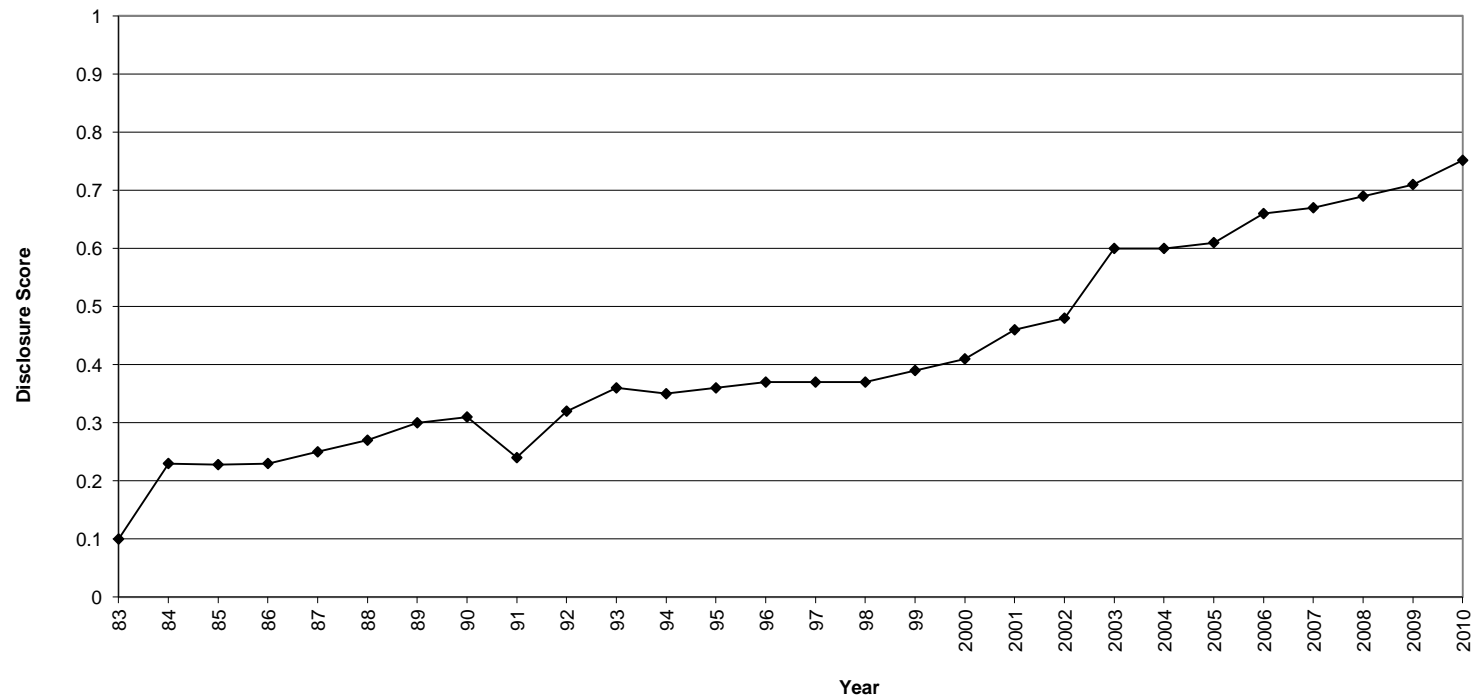
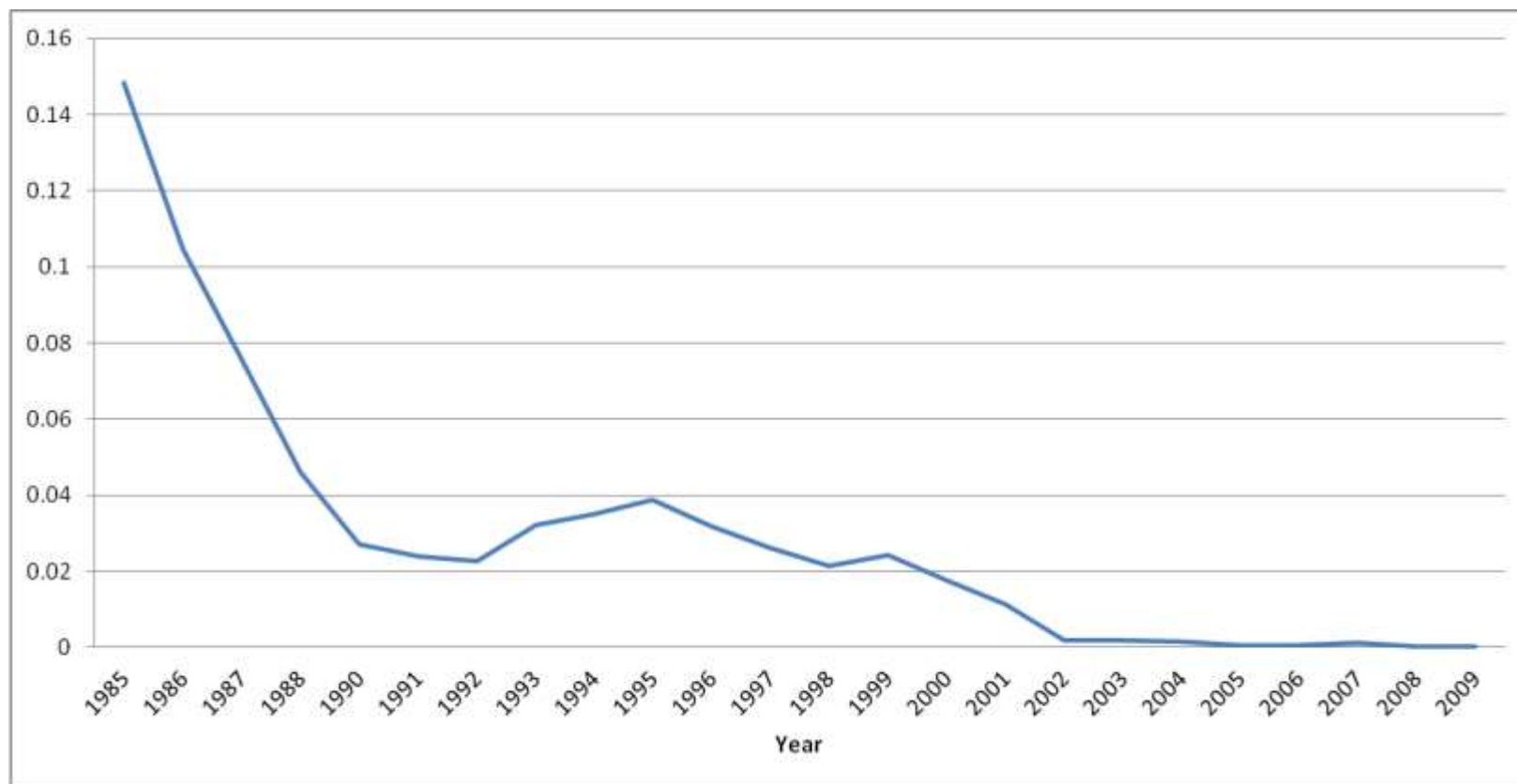


Figure 2: Mudaraba+Musharaka as a percentage of total investment (1985*-2009)



(*Data for the years 1983, 1984 and 2010 are missing due to their non-availability.)